The Comprehensive Spending Review

LGA conference – 23 October 2007

The three-year Comprehensive Spending Review 2007 was announced by the Chancellor Alistair Darling on Tuesday 9 October. The settlement contained the following headline messages for local government:

- an increase in local government's Aggregate External Finance of 4.2 per cent in 2008-09; 3.5 per cent in 2009-10 and 3.4 per cent in 2010-11. These figures represent **real terms increases of 1.5 per cent, 0.8 per cent and 0.7 per cent** respectively;
- £5bn of former specific grant and former LAA ring-fenced grants will be delivered in the form of non ring-fenced grants;
- on economic development, the government is consulting on the detail of a **power to implement a Supplementary Business Rate** (SBR) with effect from April 2010. The power would be available to the highest-tier authority in any area and subject to a 2p in the pound limit;
- funding for the **Local Authority Business Growth Incentive scheme will be £150m** over the next three years;
- local government will be expected to **achieve 3 per cent (£4.9bn) cashable efficiency savings** over CSR07;
- a **reduction in the number of performance indicators** from over 1000 to 198;
- the government expects that the settlement will enable councils to **keep council tax increases well below 5 per cent** in each of the three years of the settlement;
- the government will be **consulting on the reform of the public support and care system** via the publication of a green paper.

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The LGA's view: the overall settlement

The LGA's view is that this looks to be a **particularly tough settlement** for local government. In its CSR submission, the LGA calculated that a minimum 1 per cent real-terms increase was required to enable local authorities to maintain business as usual, and a 4.2 per cent increase required in order to manage and deliver new burdens such as new policies in children's services, additional services to increased numbers of elderly people and rapidly increasing costs of waste management.

It has been suggested that the 1 per cent increase announced in the CSR is a 'fair and affordable' settlement because it meets the LGA's call for a minimum 1 per cent increase. In fact, the 1 per cent increase outlined by the LGA related to the £46bn local government spending baseline funded by general and specific grants but excluding school spending. The 1 per cent increase announced in CSR relates only to the general CLG grant provided by government, a baseline of just £24bn.

Therefore, the **1 per cent increase announced so far falls short of the minimum increase called for by the LGA** in order to maintain business as usual, and is well below the 4.2 per cent increase required to deliver the new burdens which will have to be managed over the next three years.

On closer inspection, however, the figures in the settlement look even tougher. The headline figure of an average 1 per cent real-terms funding increase includes additional support for PFI over the next three years. A more realistic analysis of the settlement would **exclude the PFI element**; with this adjustment, the funding increases provided over the next three years are 3.8 per cent, 2.8 per cent and 2.6 per cent. This is **just 1 per cent, 0.1 per cent and -0.1 per cent in real terms**. This means that, effectively, there is no additional new funding available after the first year of the settlement. The LGA's view is that **a settlement that does not provide for any real funding increase after year one will make it very difficult for councils to achieve council tax increases that are 'well below' 5 per cent**.

Although we are concerned with the funding implications of the details announced so far, there are a number of positive outcomes from the settlement, including the reduction in performance indicators; the £150m efficiency fund; the power to levy an SBR; and the creation of a special grant to fund the national concessionary fares scheme.

Adult social care

The **additional funding provided to local authorities via the general grant – from which adult social care is funded – is just £2.6bn (including the support for PFI, which is unlikely to benefit social care)**. Yet the LGA's figures estimate that it will cost an additional £2.682bn to provide care to increasing numbers of older people over the next three years. Therefore, the **additional funding provided could be entirely taken up by social care**, even though many other services funded by the general grant are also subject to financial pressures.

Our work with authorities before the settlement indicates that the increase provided simply will not enable them to meet the budget pressures they have identified for 2008-09. **One borough council in the south east informed us that**, as a result of demographic and other pressures, **expenditure on social care in 2008-09 will need to rise by 4.6 per cent in real terms**. Similarly, **a council in the north west** has identified that expenditure will **need to increase by 2.2 per cent in real terms**. Clearly, these expenditure increases are greater than the funding increase announced in the CSR.

The government also used CSR to announce that it would be preparing a green paper to **'consult on reform of the public support and care system focusing on older people'**, with a view to ensuring a sustainable system that targets resources effectively, is affordable and promotes independence, well-being and control for those in need. The **LGA welcomes this review of the longer-term funding of social care**, but we are concerned that the settlement does not provide sufficient resources to enable councils to manage the pressures in this area **now**.

Children's services

We are still awaiting the detail of a number of grants from DfES and, **at this stage, do not have a clear picture of education funding over the duration of CSR**. The headline figure is that total education spending will rise on average by 2.8 per cent a year in real terms between 2007-08 and 2010-11,from £77bn in 2007/08 to £92bn in 2010/11. The schools funding settlement from DCSF, which will give details of proposed schools grants to authorities for the three CSR years is expected at the end of October or the beginning of November. We expect many children's services grants to be announced at the same time.

On schools capital, we are pleased at the increased funding available, and at the movement from supported borrowing to capital grant.

Economic development – LABGI and Supplementary Business Rates

The CSR contained an announcement that funding for the **LABGI** scheme has been dramatically reduced in the 2007 settlement. **Compared to £1bn of funding additional to AEF over the SR04 period, the 2007 settlement provides just £150m included in the AEF**. This will have a detrimental impact on local initiatives to encourage economic development. Even if councils were to raise the maximum amount possible from Supplementary Business Rates - £600m – when the power is introduced in April 2010, this would still mean that councils received just three quarters of the total LABGI funding available during SR04.

The move to **allow councils to implement an SBR is a step in the right direction**. However, the government's approach proposes numerous controls, such as limiting which councils can levy the SBR (unnecessarily restricting district councils and London boroughs from being able to levy the rate) and limiting the SBR to 2p in the pound, compared to the 4p limit proposed by the Lyons review.

Value for money and efficiency

CSR07 confirmed that, in line with the rest of the public sector, local government has been set a 3 per cent – £4.9bn – cashable efficiency target. CLG have identified four main areas for achieving efficiency savings:

- business process improvement (BPI);
- collaboration between public bodies;
- smarter procurement;
- asset management.

CLG expects that the **vast majority of the £4.9bn savings will come from BPI (£1.6bn) and procurement (£2.8bn)**, although these figures are CLG's view of the scope for savings rather than specific targets for these areas.

Councils will be **supported to achieve efficiencies via a £150m fund**, which CLG is currently considering how to allocate. Councils will not be subject to individual efficiency targets unless they choose one for their local area agreement, and any efficiencies will be retained by them for investment in local services. Councils will be required to provide a forecast of efficiency savings as well as details of the actual figure achieved by the end of the year, but there are no other reporting requirements.

The **LGA has consistently challenged the savings target for local government, and we have also questioned the evidence base supporting CLG's forecast on where the savings might be realised**. We feel that £4.9bn is a very challenging target for local government. However, we are pleased at the allocation of £150m to support councils in achieving efficiencies, and at the fact that there will be no mandatory individual council targets.

Performance framework

The LGA is **pleased with a number of announcements in relation to the new performance framework**. The government announced a single set of 198 indicators to manage performance delivery outcomes, down from an estimated 1,200 indicators. In addition, there will be no mandatory targets for Local Area Agreements nor any other target-setting mechanism for the outcomes which local government is delivering alone or in partnership.

Housing

The LGA welcome the increase in housing investment but feels that, against the scale of the ambition in this area, the real terms growth is in low single figures. We are also pleased at the £1.7bn for investment in infrastructure in designated growth areas, although our view is that **infrastructure needs are not confined to defined growth areas.**

Waste and the environment

The LGA is pleased with the increased PFI funding for waste management facilities, but has concerns that the long lead-in times and the complexity of developing them means that this could have **little or no impact on waste cost pressures during the CSR period**. The government's squeeze on general revenue funding, as demonstrated by the 1.4 per cent real terms increase for DEFRA, does not address the cost pressures that indicate that waste spending will rise by 10 per cent a year over the CSR period.

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